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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 002164

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SUBJECT: OPPORTUNITIES FOR TERRORIST EXTORTION AS
PROFITABLE CEMENT COMPANY SQUEEZED BY MARKETING
RESTRICTIONS

Classified By: Ninewa PRT Leader Alex Laskaris: 1.4 (B) and (D).

This is a Ninewa Provincial Reconstruction Team (PRT) message.

11. (C) Summary: Marketing restrictions act as a drag on legitimate economic activity and enhance the attractiveness of the cement black market to terrorist and criminal extortion. The state-owned Northern Cement Company (NCC) consists of six profitable cement plants that employ approximately 3,350 workers at three locations in Ninewa: one in Sinjar, three in Baddoush and two in Hammam al Alil. NCC Director Hussein Obeid, a southern Iraqi Shia Arab with a sophisticated business sense, runs the factories profitably but says he could hire more employees and better support the province's economy if he had more electricity and a greater freedom to sell his product at a price and place determined by the market. Our policy challenge will be to support efforts to increase employment and profitability at the cement factories while ensuring that enhanced profitability helps the legitimate economy rather than terrorists or corrupt insiders. End Summary.

NCC Profitable and Investing Locally

12. (C) Obeid said his six factories, which own the land from which their raw materials are drawn, are so profitable that the NCC subsidizes operations of the Baghdad Ministry of Industry and Minerals main office. In the last year, Obeid has won approval for a local loan program in which his factories give microloans to cement-related family businesses in the construction value chain (block making, tile cutting, etc.). To date, this mutually reinforcing business support model has seen 400 microloans pushed out to the Ninewa construction industry, ranging from \$16,000-\$24,000. They are funded through NCC profits earned locally, distributed through Rafidein Bank, and have extremely low interest rates.

Profits Attract Terrorist Extortion

13. (C) PRT and Third Armored Cavalry Regiment have heard often reports of criminal and terrorist racketeering and extortion in the cement trade, including kidnapping of NCC managers and employees who have access to cash by virtue of their positions, demands for protection money, and skimming of cement sales profits. As in other profitable Ninewa industries like fuel and wheat sales, insurgents target the complete cement value chain for extortion because it offers a source of cash from sales of these highly demanded items in an environment with weak rule of law and insecurity.

14. (C) Government of Iraq (GOI) cement price restrictions and distribution quotas create unnatural distortions that feed the black market and create the opportunity and motivation for insurgent extortion. In June, the black market price per ton of cement ran between \$150/ton and \$158/ton in Ninewa,

while the NCC is prohibited by the GOI from selling cement at over \$125/ton to government clients and \$100/ton to private clients. Beyond the price difference, the company is directed to push regulated amounts of cement to various locations throughout Iraq, based on provincial quotas. Much of the NCC supply goes to Baghdad, Obeid said. There are also institutionally-determined quotas for the various ministries and private quotas for local distributors. Obeid has asked for USG assistance in convincing the Ministry of Industry and Minerals to allow him to sell additional amounts of cement to private clients, even at the higher \$125/ton government customer price.

Power Shortages Hamper NCC

15. (C) The NCC is also hampered by a lack of electricity. The company's six plants draw power from the national grid and on-site heavy fuel oil (HFO) generators, both of which operate below capacity. Obeid has asked GOI fuel distribution officials for either increased dedicated HFO deliveries or the local authority to source his own HFO from any provider (including imports).

Comment: Reduced Regulation Could Squeeze Black Market

16. (C) In Ninewa's severely depressed economy, Obeid offers something rare: a profitable, high employment company that helps drive employment in the wider economy. At the same time, this profitability attracts terrorist financiers looking to extort money from NCC employees and the profitable

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black market in cement. Easing restrictions on cement quotas and prices would squeeze the margin for black market cement sales that can be used to fund the insurgency, though it could also result in supply disruptions to Baghdad consumers.

Ministry of Industry and Minerals is seeking to attract foreign investors to enter into production-sharing joint ventures with the Sinjar and Baddoush cement plants. (Ministry of Industry and Minerals signed similar contracts for two other state-owned cement factories in Kirkuk and Anbar provinces.) This is welcome news, but such steps should also be matched with sales reforms to eliminate distortions in the cement trade for long-term investor profitability.

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